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OPASTCO

ORGANIZATION
FOR THE PROMOTION
AND ADVANCEMENT
OF SMALL
TELECOMMUNICATIONS
COMPANIES

April 17, 2000

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Magalie Roman Salas
Secretary
Federal Communications Commission
445-12th Street, SW
Room TW-204B
Washington, DC 20554

RE: Ex Parte Submission
CC Docket 98-146

Dear Ms. Salas:

The Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), an association of small and rural incumbent local exchange carriers (ILECs), submitted the attached written statement to the Federal-State Joint Conference on Advanced Services at the field hearing held today in Anchorage, Alaska. The statement expresses OPASTCO's belief that deployment of advanced services in areas served by rural telephone companies is progressing in a reasonable and timely fashion to the extent market forces, technological limitations, and regulations allow. OPASTCO also notes that should advanced services deployment become mandatory, universal service support will become necessary. The statement summarizes the recommendations submitted by OPASTCO in CC Docket No. 98-146, to enhance the ability of small ILECs to invest in the facilities upgrades necessary to deploy advanced services to rural consumers.

Specifically, OPASTCO calls for the following deregulatory measures: the establishment of a separate advanced services rural telephone company exemption from the Section 251(c) interconnection requirements of the Telecommunications Act of 1996; the acceleration of depreciation rates for advanced services infrastructure investments in

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rural areas; an increase in the authorized rate of return to reflect rural ILECs' higher risks and costs of capital; the withdrawal of eligibility restrictions that prohibit small and rural ILECs from gaining access to technologies capable of providing advanced services; and the elimination of the restrictive cap on the rural high-cost universal service fund.

In accordance with Section 1.1206(b) of the Commission's rules, OPASTCO submits one (1) original and two (2) copies of this notice and the attached written statement for inclusion in the public record of this proceeding.

Respectfully submitted,



Stephen Pastorkovich
Senior Policy Analyst

cc: The Honorable William Kennard
The Honorable Gloria Tristani
The Honorable Harold Furchtgott-Roth
The Honorable Michael Powell
The Honorable Susan Ness
The Honorable G. Nanette Thompson
The Honorable Irma Muse Dixon
The Honorable Jo Anne Sanford
The Honorable Steve Furtney
The Honorable Brett Perlman
The Honorable Bob Rowe
Linda Kinney, CCB
Tom Wilson, WUTC
Phil Treuer, RCA
Paul Hudson, TX PUC
John Mann, FL PSC
Bonnie Lorang, MT PSC

Attachment



O P A S T C O

**Statement
of the
Organization for the Promotion and Advancement of Small
Telecommunications Companies
to the
Federal-State Joint Conference on Advanced Services**

The Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO) is a national trade association of more than 500 small independent incumbent local exchange carriers (ILECs) serving rural areas throughout the United States. OPASTCO members are striving to bring advanced services to their rural communities, and appreciate the commitment the Joint Conference has made to address this critical issue. As the members of the Joint Conference well know, the deployment of advanced services to rural areas is a challenge due to many of the same factors that make traditional voice service difficult and expensive to deploy: geographic isolation, long loops, sparse and dispersed populations, *etc.* In addition, factors such as sufficient consumer demand and access to an adequate backbone can vary greatly from one rural area to the next. Compounding these challenges for small ILECs serving rural areas is the inability to spread costs over urban population centers, and the lack of access to the vast capital resources enjoyed by large carriers - both incumbents and competitors.

Despite all of the obstacles, OPASTCO believes that small ILECs are making real progress in the deployment of advanced services, to the extent that market forces, technological limitations, and regulations allow. Surveys conducted by various organizations, including OPASTCO, indicate that many small ILECs are either deploying advanced services, or plan to do so in the near future. Marketplace dynamics and technological developments should continue to spread the deployment of advanced services in rural areas. Should the Federal Communications Commission (FCC) and state commissions choose to take action to spur deployment, Section 706 of the Telecommunications Act of 1996 encourages regulatory forbearance and other methods that remove barriers to infrastructure investment. However, should policymakers require ubiquitous deployment of advanced services in rural areas by a date certain, then adequate support funding will be essential in order to reach the most remote and costly areas.

RECOMMENDATIONS

OPASTCO offers the following recommendations to help spur small ILEC investment in the network infrastructure necessary to provision advanced services in rural areas. More detailed treatments of these recommendations were submitted in response to the FCC's Second Notice of Inquiry on Advanced Services (CC Docket 98-146, FCC 00-57).

While there is no single all-encompassing solution, the following measures will enhance efforts to make advanced services available to consumers in all areas of the country.

- **Establish a separate rural exemption for advanced services**

The market and operating conditions of many small ILEC service areas do not naturally support more than one telecommunications provider capable of serving all customers. This is what led Congress to exempt rural telephone companies from the 1996 Act's interconnection, network unbundling, resale, and collocation requirements (47 U.S.C. Sec. 251(f)). Presently, when a state commission rescinds a rural telephone company's exemption, the revocation applies to both voice grade and advanced services. Small ILECs, if forced to lease network components to other companies, will find it far more difficult to justify the risky and costly investments necessary to upgrade facilities for the provision of advanced services. An advanced service rural exemption, separate and distinct from the voice grade exemption, would encourage investment in advanced service infrastructure, and thus speed deployment to customers in high-cost, difficult-to-serve markets.

- **Accelerate depreciation rates for advanced services infrastructure investments in rural areas**

Constant technological breakthroughs in high-tech communication networks has led to the obsolescence of equipment at a faster pace than has historically been the case. Depreciation according to "Internet time" would give small ILECs and their lenders greater confidence that they will be able to recover their capital investments, as well as encourage equipment upgrades. This would lead to improved capabilities and service quality for consumers.

- **Raise the authorized interstate rate of return to reflect rural carriers' higher risks and costs of capital**

Small ILECs are confronted with far greater regulatory, technological, and marketplace risks and uncertainties than was the case when the present 11.25 percent authorized interstate rate of return was established in 1990. As a result, current estimates of small ILECs' cost of capital range from 13.95 to 14.15 percent. Lack of sufficient capital hampers the ability of small ILECs to invest in the infrastructure needed to bring advanced services to rural America. A higher authorized interstate rate of return would take small ILECs' new operating environment into account, while enhancing the ability of small, rural carriers to undertake costly and risky investments in advanced service facilities.

- **Rescind, and refrain from imposing, any technological limitations on small, rural carriers**

Due to the wide diversity of conditions to be found in rural areas, a solution for providing advanced services that may be inefficient or infeasible in one rural market may be affordable and easily achievable in another. Like their competitors, small ILECs must have the option to use any technology that can meet the needs of customers in their service areas. Small ILECs have a proven history of providing high-quality services to sparsely populated areas, and are therefore the most likely to utilize new technologies and hybrid networks that can deliver services to high-cost and difficult-to-serve customers. However, the FCC has effectively prohibited small ILECs from utilizing some technologies, such as LMDS. These restrictions run directly counter to the goals of the FCC and Congress to make access to advanced services available to all Americans. Instead of forbidding or discouraging small ILECs from exploring innovative ways to provide new services to rural consumers, the FCC should eliminate restrictions and offer incentives to those willing to undertake such efforts.

- **Eliminate the restrictive cap on the rural high-cost support fund**

The “interim” cap on federal high-cost universal service support for rural carriers impedes the ability of small ILECs to provide quality services to consumers. Small ILECs must expend scarce capital to make up for the funding shortfalls engendered by the cap in order to maintain quality voice-grade service. These resources are subsequently not available for investment in the provision of advanced services. This regulatory penalty against customers of small, rural carriers should be lifted immediately.

CONCLUSION

OPASTCO hopes the Joint Conference will consider these proposals and other market-oriented, deregulatory measures that will help rural carriers do what they do best: provide modern, affordable state-of-the-art services to the rural communities of which they are a vital part.